Asian economic outlook and challenges ahead

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Key messages

- Growth in developing Asia steady at 5.7% in 2016 and 2017, despite global headwinds
  - PRC growth upgraded to 6.6% in 2016 and 6.4% in 2017, as policy support eases growth moderation
  - India growth maintained at 7.4% in 2016 and 7.8% in 2017, along with steady progress in reforms
- Commodity prices picking up, yet inflation remains subdued
- Short-term risks to the outlook tilted to the down side
- Asia faces long-term challenges for sustained growth
Developing Asia’s growth is steady

GDP growth (%)

2011: 7.4%
2012: 6.4%
2013: 6.5%
2014: 6.3%
2015: 5.9%
2016f: 5.7%
2017f: 5.7%

f = forecast
Despite the softer external environment

<table>
<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016 growth forecast (%)</th>
<th>2017 growth forecast (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
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<td>ADO 2016</td>
<td>Update</td>
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<tr>
<td>Major industrial economies</td>
<td>1.9</td>
<td>1.8</td>
<td>1.4</td>
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<tr>
<td>United States</td>
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<td>2.3</td>
<td>1.5</td>
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<tr>
<td>Euro area</td>
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<tr>
<td>Japan</td>
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</tr>
</tbody>
</table>

ADO – Asian Development Outlook
Demand-side contributions to growth, H1 2016

Percentage points

- Domestic demand (Consumption and investment)
- Net Exports
- Statistical discrepancy
- GDP growth

Note: Data for India refer to Q1 of FY2016.
## Divergent growth prospects across countries

<table>
<thead>
<tr>
<th>Region</th>
<th>2015</th>
<th>2016f</th>
<th>2017f</th>
<th>Forecasts</th>
<th>2015</th>
<th>2016f</th>
<th>2017f</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia</td>
<td>7.0</td>
<td>6.9</td>
<td>↔</td>
<td>7.3 ↔ East Asia</td>
<td>6.1</td>
<td>5.8</td>
<td>▲ 5.6</td>
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<tr>
<td>Bangladesh</td>
<td>6.6</td>
<td>7.1</td>
<td>▲ 6.9</td>
<td>China, People’s Rep. of</td>
<td>6.9</td>
<td>6.6</td>
<td>▲ 6.4</td>
</tr>
<tr>
<td>India</td>
<td>7.6</td>
<td>7.4</td>
<td>↔</td>
<td>7.8 ↔ Korea, Rep. of</td>
<td>2.6</td>
<td>2.6</td>
<td>↔ 2.8</td>
</tr>
<tr>
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<td>4.7</td>
<td>▲ 5.2</td>
<td>Taipei, China</td>
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<td>0.9</td>
<td>▼ 1.5</td>
</tr>
<tr>
<td>Southeast Asia</td>
<td>4.4</td>
<td>4.5</td>
<td>↔</td>
<td>4.6 ▼ Central Asia</td>
<td>3.0</td>
<td>1.5</td>
<td>▼ 2.6</td>
</tr>
<tr>
<td>Indonesia</td>
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<td>5.0</td>
<td>▼ 5.1</td>
<td>Azerbaijan</td>
<td>1.1</td>
<td>-2.5</td>
<td>▼ 1.0</td>
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<td>4.1</td>
<td>▼ 4.4</td>
<td>Kazakhstan</td>
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<td>0.1</td>
<td>▼ 1.0</td>
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<tr>
<td>Philippines</td>
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<td>6.4</td>
<td>▲ 6.2</td>
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<tr>
<td>Thailand</td>
<td>2.8</td>
<td>3.2</td>
<td>▲ 3.5</td>
<td>The Pacific</td>
<td>7.2</td>
<td>2.7</td>
<td>▼ 3.5</td>
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<tr>
<td>Viet Nam</td>
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<td>6.0</td>
<td>▼ 6.3</td>
<td>Fiji</td>
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<td>2.4</td>
<td>▼ 4.5</td>
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<tr>
<td>Papua New Guinea</td>
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<td></td>
<td></td>
<td>9.9</td>
<td>2.2</td>
<td>▼ 3.0</td>
</tr>
</tbody>
</table>

f = forecast, ↔ = retained forecasts in March ADO, ▲ = upgrade, ▼ = downgrade
Note: Infrastructure investment and exports refer to year to date year-on-year growth, while retail sales refer to year-on-year growth.
Reform supporting India’s solid expansion

GDP growth

<table>
<thead>
<tr>
<th>Year</th>
<th>GDP Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>2013</td>
<td>6.6%</td>
</tr>
<tr>
<td>2014</td>
<td>7.2%</td>
</tr>
<tr>
<td>2015</td>
<td>7.6%</td>
</tr>
<tr>
<td>2016f</td>
<td>7.8%</td>
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<tr>
<td>2017f</td>
<td>7.1%</td>
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</tbody>
</table>

f = forecast

Announced greenfield FDI projects

<table>
<thead>
<tr>
<th>Year</th>
<th>Project Value (left scale)</th>
<th>Average Project Size (right scale)</th>
</tr>
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<tbody>
<tr>
<td>2010</td>
<td>40</td>
<td>60</td>
</tr>
<tr>
<td>2011</td>
<td>50</td>
<td>70</td>
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<tr>
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<td>50</td>
<td>70</td>
</tr>
<tr>
<td>2015</td>
<td>60</td>
<td>80</td>
</tr>
</tbody>
</table>

Purchasing Manager's Index

- Manufacturing: Indicates expansion
- Services: Indicates contraction
Global commodity prices picking up

Price of Brent crude oil

Food commodity price indexes

- Food
- Edible oils

[Graphs showing the price of Brent crude oil and food commodity price indexes from 2010 to 2016.]
But Asia’s inflation largely subdued

Inflation (%)

2011: 5.9
2012: 3.9
2013: 3.7
2014: 3.0
2015: 2.1
2016f: 2.6
2017f: 2.9

f: forecast
1. Fragile external environment
   - Weak demand from the US, euro area, and Japan
2. Advanced economies’ monetary policies
   - Capital flow disruption; complicating macro management
3. Growing protectionism
   - Further impacting the region’s already weak exports
4. Rising private debt
   - Requiring close monitoring to prevent systemic risks
5. Natural disasters
   - Increasing vulnerability in view of global climate change
Long-term challenges for sustained growth

1. Innovation and upgrading
2. Closing the infrastructure gap
3. Investing in human capital
4. Addressing rising income inequality
5. Moving toward low-carbon growth
6. Population aging
Research and development expenditure (% of GDP)

- Korea, Rep. of (4.29)
- Japan (3.58)
- Singapore (2.19)
- China, People's Rep. of (2.05)
- Malaysia (1.26)
- India (0.82)
- Hong Kong, China (0.73)
- Thailand (0.48)
- Nepal (0.30)
- Pakistan (0.29)
- Armenia (0.24)
- Mongolia (0.23)
- Azerbaijan (0.21)
- Uzbekistan (0.20)
- Viet Nam (0.19)
- Kazakhstan (0.17)
- Myanmar (0.16)
- Philippines (0.14)
- Kyrgyz Republic (0.13)
- Sri Lanka (0.10)
- Georgia (0.10)
- Indonesia (0.08)
- Cambodia (0.05)
- Lao PDR (0.04)
- Brunei Darussalam (0.04)

⇒ Most Asian economies spend considerably less on R&D than the global average of 2.1% of GDP

Note: Data for 2014 or latest available year.
Source: World Bank, World Development Indicators online database.
Large gaps in infrastructure remain
Many developing Asian economies have not been able to translate educational investments even into basic quality skills

PISA/TIMSS test scores representative of students aged 14–15

400 = basic cognitive skills

600 = top-level cognitive skills

Source: PISA 2009* and 2012; TIMSS 2003**; TIMSS 2007***
A number of economies experienced rising inequality between the 1990s and 2000s.
Renewables
Coal
Gas
Nuclear
Oil

Developing Asia’s primary energy composition,
Business as usual

Billion tons of oil equivalent (BTOE)

Developing Asia’s primary energy composition,
To meet 2°C climate goal

Billion tons of oil equivalent (BTOE)

⇒ Energy consumption must fall by 40% to 6 BTOE by 2050, of which only 10% will come from coal and 43% from renewables including wind, solar, hydro, and biomass, to meet the 2°C global climate goal.
Asia’s population is graying fast, especially in East Asia.
Growth in developing Asia steady at 5.7% in 2016 and 2017, despite global headwinds

- PRC growth upgraded to 6.6% in 2016 and 6.4% in 2017, as policy support eases growth moderation
- India growth maintained at 7.4% in 2016 and 7.8% in 2017, along with steady progress in reforms

Commodity prices picking up, yet inflation remains subdued

Short-term risks to the outlook tilted to the down side

Asia faces long-term challenges for sustained growth
Thank you!

For more information, please contact
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